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STATEMENT OF CONGRESSMAN ED CASE OF HAWAII FRIDAY, APRIL 8, 2005

EXPRESSING CONCERN WITH THE CUTS IN THE PROPOSED BUDGET OF THE SMALL BUSINESS ADMINISTRATION

Mr. Speaker, I rise today to express my continued disappointment with the proposed budget for the Small Business Administration. The budget request for fiscal year 2006 is \$593 million, nearly \$100 million below what was requested last year, representing a ten percent decline in program funding. These funding cuts are coming from some of the most important programs within the SBA, including the 7(a) loan program, Disaster Loan Program, and the Program for Investment in Microentrepreneurs (PRIME).

Mr. Speaker, I hope that as this House considers the budget resolution, we can remember the important service that the SBA provides to all of our constituents. To remind my colleagues of the importance of the SBA, I have included an article that appeared in the March 16, 2005 edition of the Honolulu Advertiser. Entitled "SBA Faces Budget Cuts," this article highlights several individuals in my home state whose businesses would not have survived without the timely assistance of the SBA. [From the Honolulu Advertiser, Mar. 1, 2005]

SBA FACES BUDGET CUTS

(By Catherine E. Toth)

If Pablo Gonzalez didn't get \$30,000 worth of government-backed loans over the past five years, he would have had to shut down his juice bar.

Fortunately, the U.S. Small Business Admini-

stration provided guarantees for two loans—one in 2000, another in 2002—that allowed Gonzalez to expand his business.

Since then sales at Lanikai Juice Co. have increased nearly 15 percent every year, Gonzalez said. He hopes to open a second location sometime soon.

"As a small business, your chances to survive are more difficult," said Gonzalez, who moved to Hawai'i eight years ago from Barcelona, Spain.

"You have to live with higher prices and less profit. If it weren't for SBA, honestly, I don't think I'd still be here."

Nearly 20 million small businesses nationwide have benefited from technical assistance, loans and grant programs offered by the SBA. Its current business loan portfolio of about 219,000 loans worth more than \$45 billion makes it the largest single financial backer of U.S. businesses in the nation.

But the agency may find it harder to carry out its mission next year if Congress approves proposed cuts to its fiscal 2006 budget.

The proposed budget for SBA is \$593 million, a 13 percent decline from the agency's 2005 request and a 36 percent drop over the past five years.

More than 50 small-business programs, including those in Hawai'i, are slated for cuts or elimination in the proposed budget, up from 35 last year.

Among those slated for elimination are the agency's Microloan program, its startup loan program for low-income entrepreneurs, and the SBIC Participating Securities program, its flagship venture capital program.

(As in fiscal 2005, the 7(a) loan guarantee program--the agency's primary business lending program--will not be subsidized. Instead of taxpayer funds, it will be sustained entirely on an increase in fees by lenders and borrowers.)

This doesn't bode well for entrepreneurs who can't get conventional loans, especially with the Hawaii Community Loan Fund, a lender of last resort, filing for bankruptcy last month.

“(The Microloan program) is very worthwhile because you're helping people who couldn't get a start,” said Dr. Tin Myaing Thein, executive director of the Pacific Gateway Center, which administers SBA's microloans. “This is for people who don't have a chance with the bank, who would have no chance at all to start their own business. We have so many success stories here.”

Abracadabra Cabinets at Campbell Industrial Park fell into a slump after the terrorist attacks of Sept. 11. Owner Joanne Gibeault needed some extra cash to keep her business going.

But she couldn't get a loan or a line of credit from her bank. So she turned to SBA.

Through the agency's Community Express loan program, which offers microloans to small-business owners, Gibeault got \$15,000 last year to pay bills and grow her business.

Since then the business has grown nearly 50 percent, she said. Her biggest problem now is finding experienced cabinet-makers to hire.

“We had a hard time recovering after 9/11, like everybody did, but it took a little longer for us to catch up,” said Gibeault, who lives in Makakilo. “We struggled for a while. The loan was just enough to get us over and keep the business going.”

Gibeault started her custom cabinet company 10 years ago in Kailua. A journeyman cabinet maker, Gibeault had no experience operating a business. She took classes and attended seminars offered by the Hawai'i Women's Business Center.

Funding for these centers also is slated for cuts in the proposed budget.

“I can build stuff,” Gibeault said. “But I didn't know how to run a business when I started. These programs are definitely needed.”

As with the Women's Business Centers, funding for the agency's Small Business Development Centers may be cut or, at the least, remain flat, despite a request to increase its funding to \$109 million from \$88 million the year prior, said SBDC state director Darryl Mleynek.

The Hawai'i SBDC receives \$500,000 from the federal government and \$638,000 from the state annually. That amount hasn't changed for more than five years.

This year the Hawai'i SBDC requested another \$584,000 in funding from the state to help with growing operating costs. Expenses have increased about 17 percent over the past four years, Mleynek said.

“What we do is extremely important,” Mleynek said. “Working with small businesses offers state governments the fastest opportunity for creating sustainable economic development. And the reason is because small businesses are such a large part of our economy and when they get assistance, they increase their sales rapidly, they hire new people, and all of that comes back very quickly.”

While his program competes with others, in particular social programs, for funding from the state, Mleynek is confident that lawmakers will realize the value of investing in small business to the overall health and growth of the economy. And he's hoping for extra money in light of potential cuts to federal funding for the center.

“I believe the Legislature understands the value of putting money into our program, but money these last few years has been very tight,” Mleynek said. “To put money into one program and not another, those are very difficult choices. But I'm cautiously optimistic.”